Changes to how experience mods are calculated

The National Council on Compensation Insurance (NCCI) has recently announced changes to how NCCI experience modifications are calculated. These changes will likely have a material impact on a specific employer’s individual experience rating factors. NCCI experience modifications are an important part of all workers’ compensation rating methodologies including guaranteed cost, dividend plans, retrospectively rated policies, and deductible programs. Both premium and other costs that are a function of premium, such as surcharges and assessments, will be impacted by these changes. (Most states have approved the changes.) Per the NCCI, employers with favorable loss experience will receive larger credits and employers with less than favorable loss experience will receive larger debits. The degree of changes to a specific employer’s experience modification will be dependent upon the individual risk loss experience of the insured. Some independent state rating organizations such as California’s WCIRB are following suit.

In general, the NCCI’s research has shown that the split-point methodology used for the past 20+ years needs to be indexed for claims cost inflation, which has tripled over the same time period these past 20 years. The current split-point methodology segments losses used in the calculation into primary losses below $5,000 and excess losses above $5,000. The NCCI gives more weight to the smaller, primary losses and less weight to excess losses. Due to claims cost inflation that has resulted in many losses exceeding $5,000, excess losses have subsequently been given less weight and have rendered experience ratings less responsive over the years. Over the next few years, these split points will gradually increase to $15,000 plus an increase for inflation.

When will the experience rating split point begin to increase?

The increase in the experience rating split point cannot begin without state regulatory approval. NCCI has filed the proposed change for state regulatory approval in all states where its plan applies. If approved, the change would become effective on each state’s loss cost (rate) filing effective date, beginning with January 1, 2013 filings.

At this juncture, it is difficult to determine what the impact on any specific employer will be. As an employer, the best way to manage your experience modifier is to prevent injuries.

Using your experience mod worksheet to benchmark your performance

A copy of your experience mod worksheet can provide helpful tools in benchmarking your workers comp claims performance. The worksheet tells you the expected loss level for your given mix of payroll for the oldest three of the past four years. If you divide the expected losses by the payroll, you will get an expected rate of loss that can be applied to your current payroll. This will tell you roughly the level of claims cost that would be expected if your organization is average. Your goal, of course, is to be better than average. While this is not an exact methodology (because smaller valued claims are weighted much more heavily than large valued claims) it is a great benchmark.

For more information, contact Helen Richards, 800-528-7730 | helen.richards@wellsfargo.com